

GENERAL INFORMATION

Who must file? All pass-through entities with nonresident owners or beneficiaries ("members") must withhold Maine income tax from the Maine-source distributive income of each nonresident member who is not otherwise exempt. **Note: This withholding requirement is separate from and in addition to employee income tax withholding.**

When to file. Returns must be completed and filed with Maine Revenue Services each quarter according to the following schedule:

<u>Quarter</u>	<u>Period Covered</u>	<u>Due Date</u>
Quarter 1	01-01-06 to 03-31-06	05-01-06
Quarter 2	04-01-06 to 06-30-06	07-31-06
Quarter 3	07-01-06 to 09-30-06	10-31-06
Quarter 4	10-01-06 to 12-31-06	01-31-07

Payment: Payment of withholding amounts must be remitted quarterly at the time of filing the return to avoid interest and penalty. Prepayments may also be made by paper voucher (Form 900ME) or electronically (EFT or EZ Pay) during the quarter.

Interest and Penalty. Beginning January 1, 2006, interest is charged at an annual rate of 10%, compounded monthly, on the unpaid withholding tax. The penalty for failure to pay the withholding tax on time is 1% per month up to a maximum of 25%. The penalty for failure to file the return on time is 10% of the tax liability or \$25, whichever is greater. If the return is filed more than 30 days after demand, the penalty is 100% of the tax due.

Where to file. Mail returns, with payments, to Maine Revenue Services, P.O. Box 9118, Augusta, Maine 04332-9118.

How much should I withhold? You must withhold 8.5% of any Maine-source entity income distributable to a nonresident member (8.93% for C corporation members). This percentage represents Maine's top income tax rate. If you do not know the exact amount of income allocated to a member, you must estimate. To avoid penalties and interest, the withholding tax must be based on either of the following:

- (a) the prior year's Maine-source member income, or
- (b) 90 percent of the current year's Maine-source member income.

Maine-source Member Income. Maine-source member income is the member's share of the net income of the entity either apportioned to Maine in accordance with 36 M.R.S.A., Chapter 821 in the case of business entities, or derived from or connected with sources in Maine as determined under 36 M.R.S.A. § 5142 in the case of estates, trusts, and other entities that conduct no trade or business in Maine.

Are there any exceptions? If Maine-source entity income allocated to a single member for an entire calendar year or prior year is less than \$1,000, this withholding requirement is waived for that member. However, this does not mean the nonresident member will not owe income tax to Maine. It is possible, especially if there is other Maine-source income, for the nonresident member to owe income taxes to Maine even if the withholding requirement does not apply.

If a nonresident member agrees to comply with all Maine income tax laws, no withholding is necessary. The member who has made this agreement must provide the entity with an Affidavit and Agreement to Comply with Maine Income Tax (Form 941AF-ME). The entity must keep the document on record for at least three years. Further, the entity must annually submit a Pass-through Entity Withholding Exemption Form (941E-ME) and a List of Participating Members in the Compliant Taxpayer Exemption (941LM-ME).

If a nonresident member wishes to be included in a composite filing, the withholding requirement is waived. Each participating member must provide

the entity with an Agreement to Participate in a Composite Filing of Maine Income Tax (Form 941CF-ME). The entity must also file a Pass-through Entity Withholding Exemption Form 941E-ME with MRS, although a list of participating members is not required. Visit the MRS web site at www.maine.gov/revenue for more information about composite filing.

If a pass-through entity believes, for reasons other than those already mentioned, that it should be exempt from the withholding requirement, or the entity would like to propose an alternate application of the withholding requirement, the entity may apply for an exemption. In order to apply, Form 941E-ME and a letter of explanation must be submitted to MRS as soon as possible prior to the filing deadline for the quarterly return. If the exemption request involves a complicated pass-through entity structure (i.e., tiered entities), more time may be required for MRS to issue a decision. If the entity requesting an exemption does not receive a decision prior to the withholding deadline, the entity will need to submit the required withholding. The entity must reapply for the exemptions annually.

Copies of Form 941E-ME, affidavits and more information on pass-through entity withholding and exemptions are available at www.maine.gov/revenue/forms.

Form 1099ME. After the calendar year and before February 16, the pass-through entity must supply each member with a copy of Form 1099ME (available at www.maine.gov/revenue/forms or by calling 207-624-7894), showing the total amount withheld for the year for that member. The member must present this with his/her individual income tax return in order to prove the amount withheld for the year.

Maine EZ Pay. You may now pay your Maine income tax withholding electronically at www.maine.gov/revenue/netfile/ezpay.htm. Electronic payments eliminate the necessity of filing Forms 900ME (Employer Payment Voucher for Maine Income Tax Withheld). Maine EZ Pay is an on-line application that allows Maine taxpayers to make payments on-line, quickly and easily. Almost any type of tax payment can be made, including business tax payments, such as withholding and unemployment, or sales tax. To avoid having to make payments earlier than necessary, payments may be scheduled in advance and will automatically be withdrawn on the payment date the taxpayer selects. Taxpayers must preregister on-line.

Electronic Funds Transfer ("EFT"). Maine Revenue Services accepts both ACH credit method and ACH debit method payments. Both ACH payment methods require applications to participate. 36 M.R.S.A. § 193 and MRS Rule 102 mandate entities with annual withholding liabilities of \$200,000 or more to pay electronically. Maine Revenue Services also accepts voluntary participants into its electronic funds transfer programs. There are no payment minimums.

ACH Credit. A taxpayer may make payments using this method by authorizing their bank to withdraw the tax payment from the taxpayer's deposit account and transfer it to the state's account. To use this method, you must have previously established a relationship with a bank that provides this service and you must have previously registered with the Maine Revenue Services EFT Unit as a credit method payer.

ACH Debit. A taxpayer may make payments using this method by authorizing Maine Revenue Services to electronically transfer tax payments from the taxpayer's deposit account to the Maine Revenue Services deposit account. The authorization is initiated through a telephone call to the MRS electronic withdrawal payment system.

To obtain an application for Electronic Funds Transfer or to obtain a copy of Rule 102, visit www.maine.gov/revenue/rules; call 207-287-8276; send an e-mail to efunds.transfer@maine.gov; or write to: EFT Unit, Maine Revenue Services, PO Box 9100, Augusta ME 04332-9100.

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When using a paid preparer or payroll processor, enter their federal employer identification number (EIN) and Maine payroll processor license number in the designated fields.

Penalty for insufficient funds. The penalty for insufficient funds applies to electronic funds transfers. The penalty is \$20 or 1% of the payment amount, whichever is greater.

Penalty for failure to pay by EFT. Any person required to pay by electronic funds transfer who fails to do so is liable for a penalty equal to the lesser of 5% of the tax due or \$5,000.

Note: Forms in this book are designed to comply with optical scanning requirements. The spaces underlined in red must be completed carefully in black or blue ink. Letters and numbers must be entered legibly within the underlined area. Letters must appear in upper case only and start on the left. Numbers must start from the right.

For example:

Name	C O M P A N Y I N C
Address	1 2 3 F I R S T S T
Maine income tax withheld	1 2 3 4 5 . 0 0

Do not mail photocopies of the forms in this book to Maine Revenue Services. Photocopied forms cannot be processed by the scanning system. For more information, go to www.maine.gov/revenue/forms or call 207-626-8475.

SPECIFIC INSTRUCTIONS

Each quarterly return in this booklet is preprinted with the quarter being reported, your Pass-through Withholding Account Number, your business name(s) and the calendar period covered. Your Pass-through Withholding Account Number consists of your federal Employer Identification Number plus a two-digit state suffix. Returns must be completed and filed with Maine Revenue Services on or before the required due date.

Line A. Number of payees. Enter the total number of non-resident members subject to Maine pass-through entity withholding this quarter.

Line 1. Enter the amount of Maine pass-through entity withholding reported for this quarter from Schedule 2P, line 10. Reduce the amount of this line by any amount of real estate withholding payments.

Line 2. If you elected to make prepayments during the quarter, complete Schedule 1P. Enter the total amount remitted (either with Forms 900ME or by Electronic Payments) from Schedule 1P, line 5. Enter zero if you did not make any prepayments.

Line 3a. Enter the amount of Maine income tax withholding due with this return if line 1 minus line 2 is a positive amount. Enclose your remittance with the return.

Line 3b. Enter the amount of Maine income tax withholding overpaid if line 1 minus line 2 is a negative amount. A refund will be sent to you.

Cancellation Notice

When a business is discontinued or the requirement to withhold permanently ceases, complete the Cancellation Notice.

Line 4. Check the space and provide the information requested.

Schedule 1P

Reconciliation of 900ME Voucher or Electronic Prepayments of Pass-through Entity Withholding

Schedule 1P reports prepayments of pass-through entity withholding. Complete Schedule 1P only if you made prepayments during the quarter. Complete one row of the schedule for each prepayment made. If you did not make any prepayments, do not

complete Schedule 1P.

Line 5. Enter the total amount of pass-through entity withholding prepayments for this quarter. Include amounts remitted with Forms 900ME as well as amounts remitted by EFT or EZ Pay. Enter this amount on Form 941P-ME, line 2.

Schedule 2P

Pass-through Entity Withholding Listing

All filers must complete Schedule 2P, columns 6, 7 and 8 and lines 9 and 10. See further instructions below. Complete all information for each Schedule 2P page submitted, including the check off spaces at the top of the page. If any nonresident members are other than an individual, a separate Schedule 2P must be submitted and the appropriate space at the top of the form must be checked.

Column 6. Enter each member's last name, first name and middle initial. If a nonresident member is other than an individual, enter the business name.

Column 7. Type or print each member's social security number or, if the nonresident member is other than an individual, the federal employer identification number.

Column 8. Enter the total Maine income tax withheld for each member during the quarter. If a member's withholding is greater than \$999,999.99, enter the withholding on two or more lines to add up to the total withholding for the member. If no income tax was withheld, enter zero.

Line 9. Enter the total Maine income tax withheld for owners listed on this page. If no income tax was withheld, enter zero.

Line 10. On the last Schedule 2P page only, enter the total Maine income tax withheld for **all** Schedule 2P pages. If no income tax was withheld, enter zero. Enter this amount on Form 941P-ME, line 1.